

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY

OF

DICK F. ROHLFS

ON BEHALF OF

WESTAR ENERGY, INC.

Received
on

APR 15 2013

by
State Corporation Commission
of Kansas

DOCKET NO. 13-WSEE-629-RTS

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Dick F. Rohlfs. My business address is 818 South Kansas
3 Avenue, Topeka, Kansas 66612.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Westar Energy, Inc. as Director, Retail Rates.

6 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL
7 BACKGROUND AND PROFESSIONAL EXPERIENCE.**

8 A. I graduated from the University of Northern Iowa with a Bachelor of Arts
9 Degree in Accounting. My utility experience began in 1976 when I was
10 employed by the Iowa State Commerce Commission as a Utility Analyst.
11 In 1980, I joined the staff of the State Corporation Commission of Kansas.
12 In 1982, I accepted a position with Kansas Gas and Electric Company
13 (KGE) (together with Westar Energy, Inc. as "Westar") as a Rate Auditor

1 advancing to Senior Regulatory Accountant. In 1992, with the merger of
2 The Kansas Power and Light Company and KGE, forming what is now
3 Westar Energy, Inc., I accepted a position of Regulatory Coordinator and
4 have since advanced to my current position.

5 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

6 A. I will discuss Westar's rate design proposals in this docket.

7 **Q. WHAT GUIDELINES OR CRITERIA DO YOU EMPLOY TO EVALUATE**
8 **RATE SCHEDULES?**

9 A. Rate schedules should be designed with three general principles in mind
10 and a fourth specific principle applicable to Westar's rate schedules. The
11 first general principle is that rate schedules should be designed to produce
12 stable and predictable revenue; the second is that rate schedules should
13 be designed to promote efficient use of facilities, reflect the cost to provide
14 the service, and be equitable among various users of the Company's
15 facilities; and the third general principle is that rate schedules should be
16 designed with practical attributes such as simplicity and understandability.
17 In addition to these three general principles, Westar also must take into
18 consideration the objective of furthering or concluding rate consolidation
19 approved in Docket No. 09-WSEE-925-RTS.

20 **Q. PLEASE EXPAND ON THE FIRST PRINCIPLE, THAT RATES SHOULD**
21 **BE DESIGNED TO PRODUCE STABLE AND PREDICTABLE**
22 **RESULTS.**

1 A. The first principle is important for customers, as well as the utility. Rates
2 should produce the level of revenue they are intended to generate given
3 normal economic and weather conditions in the service territory.
4 Customers generally want stable total bills and predictable rates for their
5 businesses and personal use. Similarly, utilities want rates that, under
6 normal conditions, will produce the approximate level of revenue approved
7 by the Commission.

8 **Q. PLEASE EXPAND ON THE SECOND PRINCIPLE, THAT RATE**
9 **SCHEDULES SHOULD BE DESIGNED TO PROMOTE EFFICIENT USE**
10 **OF SYSTEM FACILITIES, REFLECT THE COST TO PROVIDE THE**
11 **SERVICE, AND BE EQUITABLE AMONG VARIOUS USERS OF THOSE**
12 **FACILITIES.**

13 A. Adherence to the second general principle is facilitated by use of a class
14 cost of service study to provide guidance in determining the revenue
15 requirement of individual customer classes. The class cost of service
16 study reflects the various costs of providing service to customer groups
17 and indicates the relative contribution to overall revenue required. This
18 information is then used to design rates that move toward the goal of
19 collecting the respective costs from each customer class. Additionally,
20 rates can be designed to reflect the customer-, demand-, and energy-
21 related components of the cost of service to achieve greater adherence to
22 cost causation principles.

1 Q. PLEASE EXPAND ON THE THIRD PRINCIPLE, THAT RATE
2 SCHEDULES SHOULD BE DESIGNED WITH PRACTICAL
3 ATTRIBUTES SUCH AS SIMPLICITY AND BE UNDERSTANDABLE.

4 A. This principle addresses the administrative side of rate design. Rate
5 schedules should be easy to understand, simple to implement, and
6 provide guidance to users as to terms, conditions, and definitions. This
7 principle is targeted to customer acceptance of the rate schedule,
8 including an understanding of the rates' applicability, charges, terms, and
9 conditions.

10 Q. WHAT IS THE FOURTH PRINCIPLE, WHICH YOU HAVE INDICATED IS
11 SPECIFIC TO WESTAR?

12 A. The fourth principle is to continue consolidating the remaining rate
13 schedules where consolidation has not been totally accomplished.

14 Q. ON THE BASIS OF YOUR REVIEW OF THE CLASS COST OF
15 SERVICE STUDY AND THE PRINCIPLES JUST DISCUSSED, WHAT
16 ARE THE OBJECTIVES OF YOUR PROPOSED RATE DESIGN?

17 A. There are four objectives I am attempting to accomplish. The primary
18 objective is to move class rates of return closer to the average rate of
19 return. The second objective is to align rate components in the various
20 rate schedules to improve the price signal sent to customers. The third
21 objective is to simplify language as necessary to promote understanding
22 and acceptance. The fourth objective is to continue consolidating

1 remaining rate schedules and avoid unintended migration or reflect and
2 account for migration that will occur.

3 **Q. HOW HAS THE COMPANY TRADITIONALLY ALLOCATED THE**
4 **REVENUE REQUIREMENT CHANGE AMONG CLASSES?**

5 A. We follow the objectives discussed above. A typical approach would
6 result in allocation of most or all of the increase to customer classes where
7 the rate of return is below the average rate of return and less or none of
8 the increase to customer classes where the rate of return is above the
9 average rate of return. We would also continue to consolidate tariffs when
10 possible and reflect known migration of customers. More specifically, our
11 traditional approach would allocate 100 percent of the increase to the
12 residential and small general service customer classes – both of which
13 were identified as providing a return significantly below the system
14 average by both class cost of service studies performed by Westar
15 witness Paul Raab – and the effects of rate migration and the conclusion
16 of consolidating the High Load Factor (HLF) rate schedules would be
17 distributed proportionately among the other classes. This type of
18 allocation is reflected below in Table 1.

Table 1

<u>Customer Class</u>	<u>Revenue Change (millions)</u>	<u>Percentage Change</u>
Residential	\$23.4	3%
Small General Service	8.3	2%
Medium General Service	5.4	2%
Schools	0.8	2%
HLF/LTM/ICS	(6.4)	(2)%
Lighting Service	0.2	1%
Total company	\$31.7	1.7%

HLF = High Load Factor

LTM = Large Tire Manufacturer

ICS = Interruptible Contract Service

2 **Q. DID YOU FOLLOW THE APPROACH THAT HAS TYPICALLY**
3 **OCCURRED IN RECENT WESTAR CASES WHEN ALLOCATING THE**
4 **INCREASE AMONG CLASSES IN THIS PROCEEDING?**

5 **A. No.** As Westar witness Greenwood explains, when comparing Westar's
6 average rates with our neighbors' rates and the national average, we
7 determined that we are losing our price advantage for industrial
8 customers. Both Class Cost of Service Studies (CCOSS) performed by
9 Westar witness Raab indicate that there is an interclass subsidy to
10 residential and small general service customers from our industrial,
11 medium general service, and school classes. As Mr. Greenwood

1 describes, in this case, Westar is proposing to adjust rates so that the rate
2 of return for each class is equal – or very close to equal – to the average
3 rate of return under the either the Peak and Average or the 4-CP CCOSS
4 method. We designed rates with the goal of moving rates as little as
5 possible, but moving them to within the zone of reasonableness as
6 defined by the results of each of the two CCOSS methods. The proposed
7 rates for small general service customers reflect an allocation consistent
8 with the 4-CP method and for all other classes reflect an allocation
9 consistent with the results of the Peak & Average method of cost
10 allocation.

11 **Q. WITH THE OBJECTIVES YOU MENTIONED EARLIER IN MIND, WHAT**
12 **MODIFICATIONS TO WESTAR'S RATE SCHEDULES ARE YOU**
13 **PROPOSING?**

- 14 **A.** I am proposing the following:
- 15 1. An increase to residential and SGS customer charges to better
16 reflect the cost of service results;
 - 17 2. Increases or decreases to other rate components (customer,
18 energy and demand charges) on all rate schedules to better reflect
19 the cost of service results, mitigated to reflect gradualism concerns;
 - 20 3. Modification to HLF schedules to finalize rate consolidation;
 - 21 4. Modification to Private Area Lighting Service and Street Light
22 Service schedules to finalize rate consolidation for all standard
23 lighting service offered throughout our service territory; and
 - 24 5. Reflection of known customer migration in the design of the rate
25 schedules.

1 Q. WHAT INCREASES TO RESIDENTIAL AND SGS CUSTOMER
2 CHARGES ARE YOU RECOMMENDING?

3 A. I am proposing an increase to the customer charge in the Residential
4 Standard Service, Residential Restricted Conservation, and Residential
5 Peak Management tariffs of \$4/month. Specifically, the Residential
6 Standard Service and Residential Restricted Conservation Service
7 customer charge would change from \$9/customer/month to
8 \$13/customer/month. The Residential Peak Management customer
9 charge would change from \$11/customer/month to \$15/customer/month.

10 For the Small General Service class of customers, I am proposing
11 an increase in the customer charges for Small General Service, Small
12 General Service - Recreational Lighting, Small General Service -
13 Unmetered Service, Small General Service - Church Option, Short Term
14 Service, and Dedicated Off-Peak Rider customers of \$1/customer/month.
15 With this change, these small general service customer charges would all
16 move from \$19/customer/month to \$20/customer/ month.

17 Q. HOW DO THESE CUSTOMER CHARGES BETTER REFLECT THE
18 IDENTIFIED COST TO SERVE THESE CUSTOMERS?

19 A. The class cost of service studies performed by Westar witness Raab
20 indicate that residential class customer charges should be between
21 approximately \$14 and \$30/customer/month. For SGS customers, the
22 identified cost is between \$18 and \$42. Therefore, the proposed customer
23 charges, while at the low end of the estimated customer-related costs of

1 service for these classes, move in the direction of more cost-based rates.
2 I have recommended these modest increases in order to move more
3 towards cost-based rates but also embrace the principle of gradualism.

4 **Q. PLEASE DISCUSS THE CHANGES YOU HAVE MADE TO THE**
5 **COMPONENTS OF OTHER RATE CLASSES TO BETTER ALIGN**
6 **RATES WITH THE RESULTS OF THE CLASS COST OF SERVICE**
7 **STUDIES.**

8 A. As Westar witness Greenwood discusses, we have designed rates that
9 are consistent with an allocation of costs resulting in equal – or very close
10 to equal – rates of return under the either the Peak and Average of 4-CP
11 class cost of service methods. Because residential and small general
12 service customers are the only classes identified as providing a return less
13 than the system average under both the Peak and Average and 4-CP cost
14 allocation methods, I have designed rates that assign the entire revenue
15 increase to those classes. Then, in order to reach or get very close to
16 equal rates of return, I further increased the rates for residential and small
17 general service customers and decreased rates for the remaining
18 customer classes. The rate schedules for these other classes receive a
19 decrease that is incorporated into the tariffs by reducing demand- and
20 energy-charges as appropriate. These specific changes are shown on the
21 individual rate schedules as part of this filing.

22 **Q. DID YOU MAKE ANY OTHER CHANGES TO THE RATE DESIGN FOR**
23 **THE RESIDENTIAL CLASS?**

1 A. Yes. Currently, Westar's residential rates use inclining blocks in the
2 summer. Under this design, customers pay a lower price for the first block
3 and second block of usage (i.e., 900 kWhs) consumed each month and a
4 higher rate for additional energy consumed. In this docket, Westar is
5 proposing to slightly modify its residential rate structure for summer and
6 winter rates by keeping the rate for the first block – 500 kWh – unchanged
7 and applying the increase to the rates for only the second and third blocks.
8 This preserves the inclining block structure in the summer and its
9 encouragement to conserve, but recognizes that some level of base
10 usage is expected.

11 **Q. HOW DOES YOUR RATE DESIGN FOR RESIDENTIAL AND SMALL**
12 **GENERAL SERVICE CUSTOMERS COMPORT WITH THE**
13 **PRINCIPLES OF GRADUALISM?**

14 A. By designing rates that result in an allocation of revenue changes
15 consistent with the results of the 4-CP class cost of service method for
16 Small General Service customers and the Peak and Average method for
17 all other customer classes, Westar is taking the smallest step possible to
18 move to equal rates of return – or to get rates within the zone of
19 reasonableness defined by the results of those two methods.

20 **Q. PLEASE EXPLAIN HOW YOU MODIFIED THE HLF SCHEDULES TO**
21 **CONTINUE RATE CONSOLIDATION BETWEEN THE NORTH AND**
22 **SOUTH AND TO REFLECT MIGRATION CONCERNS.**

1 A. My starting point for the design of the new HLF tariffs is the rates in effect
2 on January 1, 2013. I first removed the billing determinants of Occidental
3 Chemical Corp. ("Oxy") because the Commission has before it for
4 approval a special contract for this customer in Docket No. 13-KG&E-451-
5 CON. New revenues were calculated for Oxy using their billing
6 determinants and the proposed rate components. I did not change the
7 customer charges for HLF North or South customers, but kept them at a
8 rate of \$250/month, because these charges are already equal between
9 North and South customers and because customer charges will do little to
10 promote efficient use of facilities by members of this class.

11 I then developed equalized energy and demand rates between the
12 areas. I did this by first reducing existing energy rates for HLF North
13 customers by \$0.006183/kWh and for HLF South customers by
14 \$0.004407/kWh. The result is an equalized energy charge between the
15 regions of \$0.010178/kWh. Finally, I equalized the demand charges
16 between the areas. The resulting demand charges are \$11.19/kW for
17 customers who take service at the secondary distribution level, \$10.28/kW
18 for customers who take service at the primary distribution level and
19 \$8.73/kW for customers who take service at the transmission voltage
20 level.

21 **Q. HOW DID YOU FACTOR MIGRATION CONCERNS INTO YOUR**
22 **ANALYSIS?**

1 A. My primary concern with migration and the resulting revenue erosion is
2 with HLF customers in Westar South. The alternative class for these
3 customers is medium general service (MGS) and, if Westar were to design
4 rates that fully reflect the cost of service, many HLF customers in Westar
5 South would find it economically advantageous to take service under the
6 MGS tariff. Such a rate design would violate the principle that rates
7 should be designed to provide stable and predictable revenues. I suggest
8 two strategies for addressing migration concerns. First, rates have been
9 designed to minimize the incentive for customers to migrate, while still
10 moving in the direction of more cost-based rates. Second, after reducing
11 migration risk to a minimum, rates have been designed to collect the "lost"
12 revenue from the classes where the revenue loss occurs.

13 **Q. HOW DID YOU DESIGN RATES TO MINIMIZE THE INCENTIVE FOR**
14 **CUSTOMERS TO MIGRATE?**

15 A. I did not reflect the full reduction in MGS rates that would move this class
16 to the identified cost of service under the Peak and Average class cost of
17 service study. If Westar's cost of service/rate design approach is
18 approved by the Commission, this suggests that the MGS class could see
19 a further rate reduction relative to the other classes in a future rate
20 proceeding.

21 **Q. HOW DID YOU INCORPORATE THE REMAINING LOST REVENUES**
22 **INTO THE COMPANY'S RATE DESIGNS?**

1 A. I analyzed the customers under the rate design developed as described
2 above and identified those customers who would still migrate to MGS from
3 HLF following the implementation. I then modified the billing determinants
4 and existing revenue levels in the proof of revenue calculation to reflect
5 the migration of these customers.

6 **Q. HOW DID YOU IDENTIFY THE CUSTOMERS WHO WOULD LIKELY**
7 **MIGRATE FROM ONE CLASS TO ANOTHER?**

8 A. Using test year billing determinants for each customer taking service
9 under the HLF and MGS tariffs, I developed an annual billing amount
10 under both applicable tariffs. I then assumed that all customers whose
11 annual bill would be reduced by more than \$20,000 or 10 percent would
12 migrate to the more advantageous tariff and adjusted billing determinants
13 and test year revenues accordingly by class.

14 **Q. PLEASE EXPLAIN HOW YOU MODIFIED THE PRIVATE AREA**
15 **LIGHTING SERVICE AND STREET LIGHT SERVICE SCHEDULES TO**
16 **CONTINUE RATE CONSOLIDATION BETWEEN THE NORTH AND**
17 **SOUTH.**

18 A. My proposed rate design for lighting service accomplishes rate
19 consolidation for all currently available lighting types. There are some
20 legacy lighting types that exist only in the North or South rate area where
21 no consolidation can occur.

22 **Q. PLEASE DISCUSS THE RATE DESIGN PROPOSED FOR SCHOOL**
23 **AND CHURCH CUSTOMERS.**

1 A. In general, my proposed rate designs result in rate decreases for
2 Religious Institution Time of Day, Restricted Total Electric - School and
3 Church, Restricted Service to Schools, Restricted Educational Institution
4 Service and Standard Educational Service customers. I have
5 accomplished this by lowering the demand and energy charges, as
6 appropriate. The resulting rate designs, shown on the proposed rate
7 schedules, result in these classes producing returns equal or very close to
8 equal to the system average return identified in the class cost of service
9 studies.

10 **Q. WILL THERE BE MIGRATION ASSOCIATED WITH THIS RATE**
11 **DESIGN?**

12 A. Yes. With this rate design there will be migration from the Small General
13 Service class to the Standard Educational Service rate schedules. We
14 have reflected this migration in the rate design in a manner similar to the
15 one described above.

16 **Q. PLEASE SUMMARIZE YOUR RATE DESIGN PROPOSALS IN THIS**
17 **CASE.**

18 A. All of the proposed rate designs will better match fixed costs with fixed
19 charges, reduce intra-class subsidies relative to current rate designs, and
20 better match the costs of providing service. They will better reflect cost
21 causation and better match seasonal costs to seasonal revenues. As a
22 result the overall rate design will be more fair and produce stable and
23 predictable bills to customers under normal weather conditions.

1 Q. ARE THERE NON-PRICE TERMS OF OTHER TARIFFS YOU ARE
2 PROPOSING TO MODIFY?

3 A. Yes. I am proposing non-price changes to these tariffs:

- 4 1. Off Peak Service (OPS),
- 5 2. Retail Energy Cost Adjustment (RECA),
- 6 3. General Terms and Conditions (GT&C), Section 2, and

7 I am also proposing, consistent with the testimony of Westar
8 witness Terry Wilson, to cancel the Economic Development Rider and to
9 implement the new Promote Kansas Rider.

10 Q. WHAT IS THE CHANGE TO THE OPS RATE SCHEDULE YOU ARE
11 PROPOSING?

12 A. I am proposing a change in the On-Peak period on this rate schedule.
13 This proposal reduces slightly the on-peak period by one-hour – the on-
14 peak period will be between 2 and 8 PM instead of between 1 and 8 PM.
15 These are the hours Westar has historically requested interruptible
16 customers to reduce usage during system conditions.

17 Q. WHAT IS THE CHANGE TO THE RECA YOU ARE PROPOSING?

18 A. The proposed change to the RECA is related to Westar's proposal to use
19 revenues from the RENEW program to fund a low-income assistance
20 program. Currently the revenue received from the RENEW is flowed back
21 to all customers through the RECA as an offset to purchased power. We
22 are proposing that the RENEW revenue instead be used to fund low-
23 income assistance. This modest change will assist lower-income

1 households. The second change to the RECA is related to the credit for
2 asset based margins and the Promote Kansas program discussed by
3 Westar witness Terry Wilson in his direct testimony.

4 **Q. WHAT IS THE CHANGE TO SECTION 2 OF THE GT&C YOU ARE**
5 **PROPOSING?**

6 A. This change removes a conflict between two sections within the GT&C
7 related to notice that a customer would provide to Westar if the customer
8 intends to terminate service. Section 2.06.03, the section we are
9 modifying, requires a three business day notice while Section 6.12
10 requires a two day notice. These two sections should be the same. We
11 are proposing to change Section 2.06.03 to require a two business day
12 notice to be consistent with Section 6.12.

13 **Q. WHAT IS THE CHANGE TO THE ECONOMIC DEVELOPMENT RIDER**
14 **YOU ARE PROPOSING?**

15 A. We are proposing to cancel the current Economic Development Rider.
16 There are no customers currently receiving the discount under this Rider.
17 As explained in detail by Mr. Wilson, Westar is proposing to implement a
18 Promote Kansas Economic Development Rider. Westar is requesting that
19 the Commission approve this new tariff.

20 **Q. THANK YOU.**